

RBI Press Release

RBI Liberalises Capital Account (March 1, 2002)

Following the announcement made by the Finance Minister in his Budget Speech for 2002-2003, the Reserve Bank of India has issued the following notification to liberalise the capital account for certain purposes.

1. The Reserve Bank of India had issued a notification in September 2001 permitting Indian companies to raise the 24 per cent limit on Foreign Institutional Investors' (FIIs) investment to the sectoral cap/statutory ceiling as applicable. The Honourable Finance Minister has clarified in his Budget Speech that the FII portfolio investment will not be subject to sectoral limits for foreign direct investment except in specified sectors. The details of sectors and the limits applicable will be specified by the Government/Reserve Bank of India in due course.

2. The Reserve Bank of India has granted permission in February 2002 to Foreign Institutional Investors (FIIs) to trade in exchange traded derivative contracts subject to limits prescribed by the Securities and Exchange Board of India. Earlier, FIIs were permitted to invest in exchange traded index futures by way of hedging on the recognised stock exchanges in India subject to the condition that the overall open interest of the FII did not exceed 100 per cent of market value of the concerned FII's total investment.

3. Existing limits for Indian direct investment outside India under automatic route has been raised from US dollar 50 million in a financial year to US dollar 100 million. Further, such Indian investor may now buy foreign exchange upto 50 per cent of their net worth as on the date of last audited balance sheet as against the existing limit of 25 per cent.

4. In order to enable the borrower to take advantage of the lower interest rates, it has been decided to allow such borrowers to credit upto 100 per cent of their export earnings to their exchange earner's foreign currency (EEFC) accounts against the present ceiling of 50 per cent. Presently prepayments of external commercial borrowings (ECBs) are permitted out of borrowers EEFC account. The approvals for credits to EEFC account in these cases will be given by the Reserve Bank. A circular to authorised dealers has been issued.

5. With a view to providing full convertibility on non-resident deposit schemes, it has been decided to discontinue non-resident non-repatriable (NRNR) account and non-resident special rupee (NRSR) account schemes with effect from **April 1, 2002**. Banks shall not accept any fresh deposits or open any fresh account by way of renewal or otherwise under these two schemes with effect from **April 1, 2002**. In respect of existing accounts under these two schemes, they may follow the following instructions :

(a) The existing accounts under **NRNR** account scheme may be continued only upto the date of maturity. The proceeds on maturity should be credited to the accountholder's NonResident (External) Rupee Account (NRE account).

(b) The existing term deposits under the NRSR account scheme may be continued till the

maturity. The maturity proceeds may be credited to Non-Resident (Ordinary) Rupee Account (NRO account) of the accountholder. Other accounts under NRSR account scheme, *viz.*, current and savings bank accounts should not be permitted to continue after September 30, 2002. The accountholder will have the option to close the account or to credit the balance to his NRO account.

Other relaxations

1. It has been decided that NRIs will not be able to repatriate their current income by submitting a certificate from their chartered accountant certifying that the amount proposed to be remitted is eligible for remittance and that applicable taxes have been paid/provided for. As per the extant guidelines, authorised dealers are permitted to allow remittances by Non-resident Indians (NRIs) their current incomes like rent, dividend, interest, pension, etc., net of applicable taxes, by debit to their NonResident (Ordinary) Rupee (NRO) accounts.
2. It has also been decided to allow Indian corporates, with proven track record, to contribute funds from their foreign exchange earnings for setting up chairs in educational institutions abroad, and for other welfare measures, which are likely to benefit community abroad. Such cases will be considered by the Reserve Bank on case-to-case basis. Authorised dealers may forward all such applications to the Chief General Manager, Reserve Bank of India, Central Office, Exchange Control Department, External Payments Division, Central Office Building, Mumbai - 400 001, with relevant details.

Detailed guidelines have been issued by the Reserve Bank and are available on its website www.rbi.org.in .